

Members

Sen. Brandt Hershman, Co-Chairperson
Sen. James Arnold
Rep. Mark Messmer, Co-Chairperson
Rep. Scott Reske
Daniel Hasler
Art Evans
Mayor Shawna Girgis
Mark Becker
Jeff Quyle
Sonny Beck
Tom Easterday
Angela Faulkner
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Chris Lowery
Nate Schnellenberger
Joe Breedlove



INTERIM STUDY COMMITTEE ON ECONOMIC DEVELOPMENT

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Authority: IC 2-5-31.8

MEETING MINUTES¹

Meeting Date: September 26, 2011
Meeting Time: 1:30 P.M.
Meeting Place: STIMULUS Engineering, Westgate
Court, Suite D
Meeting City: Crane, Indiana
Meeting Number: 2

Members Present: Sen. Brandt Hershman, Co-Chairperson; Sen. James Arnold;
Rep. Mark Messmer, Co-Chairperson; Daniel Hasler; Art Evans;
Mayor Shawna Girgis; Mark Becker; Jeff Quyle; Chris Lowery;
Nate Schnellenberger.

Members Absent: Rep. Scott Reske; Sonny Beck; Tom Easterday; Angela
Faulkner; Mickey Maurer; Joe Breedlove.

Representative Mark Messmer called the meeting to order at 1:43 p.m.

Thayr Richey, President, Strategic Development Group, Inc., gave a presentation on best practices in state and local economic development.

Mr. Richey identified the recession of the early 1980s as the crisis that revealed there was a transition underway in the Midwestern states from a semi-skilled manufacturing economy

¹ These minutes, exhibits, and other materials referenced in the minutes can be viewed electronically at <http://www.in.gov/legislative>. Hard copies can be obtained in the Legislative Information Center in Room 230 of the State House in Indianapolis, Indiana. Requests for hard copies may be mailed to the Legislative Information Center, Legislative Services Agency, West Washington Street, Indianapolis, IN 46204-2789. A fee of \$0.15 per page and mailing costs will be charged for hard copies.

to a new economy driven by knowledge-based jobs. The question that political leaders have been trying to answer ever since is: what will replace the manufacturing sector as the primary provider of middle-class jobs?

Mr. Richey reviewed some of the economic development strategies used by the states surrounding Indiana and concluded that none of them have been particularly effective in finding something that can replace semi-skilled manufacturing jobs and return the region to the level of economic vitality the Midwest experienced in the decades immediately following World War II.

Mr. Richey listed a number of current trends in economic development strategies:

- better focused targeting for business recruitment;
- tying incentives more closely to job creation than capital investment;
- more aggressive foreign direct investment;
- recognition of regional differences and needs;
- greater emphasis on job-ready high school graduates;
- more technical skills at community colleges;
- entrepreneurship programs;
- small-mid-size company support programs such as marketing support and workforce development;
- rural development initiatives; and
- university-based technology transfer as a stimulus to new development.

He emphasized that regionalism is now a hot trend.

Mr. Richey concluded by highlighting two economic development challenges for Indiana:

- (1) maintaining and creating public infrastructure; and
- (2) balancing a competitive business climate with the ability to serve public needs.

See Exhibit 1 for a copy of Mr. Richey's presentation.

Lewis Ricci, Executive Director, Indiana Arts Commission (IAC), spoke on quality of life, community, and non-fiscal issues affecting economic development.

Mr. Ricci began by surveying the impact of the IAC's grant making activity in Indiana and the economic impact of the arts generally on the state and national economies. His conclusion: the economic impact of the arts is significant and a source of competition because of the dollars it generates. For more information on the IAC's grant-making, see the IAC Grants Awarded web page at <http://www.in.gov/arts/2337.htm> (which includes lists of both individual and organization grantees in past fiscal years and so far during the 2012 fiscal year (July 1, 2011, through June 30, 2012))

Mr. Ricci turned his remarks to arts education. Arts education has come under a lot of unintended attack because of No Child Left Behind. See No Child Left Behind Act of 2001, P.L. 107-110, 115 Stat. 1425. This is because the emphasis under No Child Left Behind has been on the testable aspects of a child's education and the attributes of arts education do not lend themselves to achievement testing.

Creative education, he maintained, is one of the basic tools we can use to nurture creative people. 85% of employers say they want creative people, but there has been consistent downward pressure on the arts in education.

Mr. Ricci gave an example from Chinese education. In China, every student is required to have core competency in the arts. Why? Because, as Chinese leaders see it, during the Cultural Revolution everyone said the same things, wore the same things, thought the same things. Chinese leaders recognize that if the populace is to be more creative, the

arts are essential to instilling that creativity.

Mr. Ricci concluded his testimony by talking about the IAC's support for the business of art in Indiana. He stressed that the IAC's support is on the individual level, the community level, and the organizational level.

Mr. Ricci said that there are about 19,000 artists in Indiana working as small business people. He then described the Indiana Artisan initiative, originally a government economic development initiative begun in 2008 (and now the nonprofit corporation Indiana Artisan, Inc.). See <http://www.indianaartisan.org> for more information.

Mr. Ricci said that the IAC is working more on the community level. He said that more and more communities are looking to the arts as a key economic generator. Mr. Ricci reminded the Committee that in the past few years, legislation has passed allowing the IAC to declare an area to be an arts and cultural district. See IC 4-23-2-7 (HEA 1017-2008, SEC. 1 (P.L.10-2008)).

Finally, Mr. Ricci referred to two IAC documents that are both available on the IAC's web site: the IAC 2009-2010 Biennial Report and the Fiscal Year 2012-2016 Strategic Plan. See the IAC Strategic Plan web page at <http://www.in.gov/arts/2354.htm> (which includes links to the IAC Fiscal Year 2012 through 2016 Strategic Plan and the IAC 2009-2010 Biennial Report).

Shane Blair, Vice President, Radius | Indiana, addressed the topic of whether Indiana has any competitive advantage in the defense sector. Mr. Blair began with a brief description of Radius | Indiana, which is a nonprofit corporation serving as the regional economic development organization for an eight county region in south-central Indiana (Crawford, Daviess, Dubois, Greene, Lawrence, Martin, Orange, and Washington Counties). The Radius | Indiana offices are located on the Naval Surface Warfare Center (NSWC) Crane campus.

Mr. Blair observed that the Indiana Business Research Center (IBRC), Kelley School of Business, Indiana University, is preparing a study of the defense industry in Indiana, with support from Conexus Indiana and the Indiana Economic Development Corporation. (The study has since been released: see IBRC, Building National Security: The Economic Impact of Indiana's Defense Industry, available at <http://www.ibrc.indiana.edu/analysis/reports.asp>.) Mr. Blair also talked briefly about Indiana Supplier INsight, which is a proprietary database of Indiana vendors available for use at no charge for the purpose of matching opportunities with core competencies, at <https://app.suppliergateway.com/conexus/iframe.htm>.

Mr. Blair then spoke about technology transfer at NWSC Crane. First, he explained that NWSC Crane is devoting a considerable amount of energy to pushing technology out to private industry. This takes several forms: licensing of patented technology developed at NWSC Crane, partnering arrangements for research and development with universities and private entities, and agreements for the use of NWSC Crane equipment, facilities, and testing expertise. Second, NWSC Crane is interested in obtaining technology developed elsewhere for use in furthering its mission of supporting the warfighter. Of interest for economic development purposes, NWSC Crane is eager to involve smaller businesses with products and technology to sell by providing technical assistance with the procurement process.

Mr. Blair turned to the topic of attracting contractors and began with a few observations about demographic trends in the Crane area. He noted that the populations of the

surrounding counties other than Monroe County have declined in the past three years. He attributed the trend to about 160 people per year retiring from Crane and a significant number moving to Monroe County. In addition, there has been movement among contractors to the west side of the base. These trends have raised the concern of how to maintain local geographical dispersion of people and contractors in the area.

Mr. Blair expressed his confidence that Indiana does have an advantage to sell in terms of lower costs. Lower costs are desirable to the captains that run bases in the military because their chances for further advancement depend in part on their ability to bring contracts in under costs. Indiana, he said, can help with that.

But, he said, there are some concerns, such as the following:

- Do we have the amenities, including desirable education alternatives for children?
- Do we have adequate infrastructure?
- Do we have the necessary human capital?

Mr. Blair's final point was that people like to do business with people they know and trust. In defense contracting, that translates into relationships between active military personnel and retired generals and other retired military personnel who have associated themselves with various contractors.

In response to a question from **Jeff Quyle** about providing specific incentives for defense contractors, Mr. Blair stated that incentives don't drive deals. Mr. Blair said that he has not had questions from any contractors asking what incentives are available. He added that he has no recommendations at this time for specific incentives and reiterated the proposition that people want to do business with people they know and trust.

Representative Messmer urged Committee members to begin thinking about recommendations that the Committee may wish to make in its final report.

Representative Messmer reminded the Committee that the next meeting would be in West Lafayette on October 11.

Representative Messmer adjourned the meeting at 3:37 p.m.

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Ex. 1

Best Practices in State & Local Economic Development: Policies and Activities

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SDG's Economic Vitality Matrix

Trends in Population

Wealth

Employment Diversity

Educational Attainment

Midwestern States Continue to Adapt to a Post Semi-Skilled Manufacturing Economy.

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SDG Presentation

The New Economy

- Fundamental changes in employment swept the Midwest over the last 30 years:
 - Fewer manufacturing jobs
 - Lower manufacturing wage rates
 - Higher skill and education requirements for manufacturing workers
- Poses the question: What will replace the manufacturing sector as the primary provider of middle-class jobs?

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The New Economy

- Manufacturing represents a smaller percent of overall jobs.
- The U.S. is moving toward an economy driven by knowledge-based jobs (including those in manufacturing) rather than semi-skilled jobs.

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The New Economy

- A globalized economy.
- The struggle to reduce manufacturing costs.
- The importance of productivity.
- A competition between businesses in developed countries and those in developing countries.
- The rise of the service sector.

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Surrounding States: Ohio

A “plan to bolster business and create better-paying jobs.”

The new strategic plan for economic development, with the intent on returning Ohio to prosperity.

• Targeting 9 industries:

1. Advanced energy.
2. Aerospace and aviation.
3. Agriculture and food processing.
4. Bioscience and bioproducts.
5. Corporate and professional services.
6. Distribution and logistics.
7. Instruments, controls and electronics.
8. Auto and parts manufacturing.
9. Polymers and advanced materials.

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Surrounding States: Michigan

- “Michigan needs to abandon its strategy of “picking winners and losers” with expensive tax incentives.”
- The MEDC will partner with local economic development groups
- Entrepreneurship and Venture Capital.
- PK-20 education and workforce pipeline that is aligned with key
- Sectors or clusters critical to the economic development of the state
- Established basic employer Retention & Expansion.
- Small Business Development.
- Job posting system.
- Recognize regional differences.

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Surrounding States: Illinois

- Research and Development and Technology Commercialization.
- Export Promotion & FDI.
- Divided the state into 10 regions.
- Promoted and supported regional efforts in economic and workforce development.

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Surrounding States: Kentucky

- Until recently the state was focused primarily on new manufacturing recruitment, offering business climate advantages and incentives.
- This summer started a new economic development planning process.

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Trends in State Economic Development Strategies

- Better focused targeting for business recruitment.
 - E.g. Biomedical cluster.
- Tying incentives more closely to job creation than capital investment.
- More aggressive FDI.
 - E.g. Lt. Governor's trade mission to Japan.
- Recognition of regional differences and needs.

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Trends in State Economic Development Strategies

- Greater emphasis on job-ready high school graduates.
- More technical skills at community colleges.
- Entrepreneurship programs.
- Small-midsize company support programs such as marketing support and workforce development.
- Rural development initiatives.
- University-based technology transfer as a stimulus for new business development.
 - Incubators, SBIR, etc.

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The Difficulty of Moving away from Manufacturing

- From 1950 through today, manufacturing jobs enable a person with minimal skills and education to support a middle-class life.
- Indiana's annual average manufacturing wage (2009) is over \$71,000.

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However, Staying with Manufacturing as the Major Strategy Is also Problematic

The trend is for fewer manufacturing jobs, and manufacturing represents a smaller percentage of the state's employment.

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Trend for Manufacturing Jobs In Indiana

Year	Manufacturing Employment	Percent Manufacturing of Total Employment
1970	717,420	31.30%
1980	665,874	25.30%
1990	648,151	21.00%
2000	697,911	19.00%
2007	564,077	15.10%
2009	453,904	12.00%

Source: STATS Indiana; U.S. Bureau of Economic Analysis

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Indiana Communities Are Trying New Approaches

Focus	Example
Recruiting young knowledge-based workers (the creative class).	The Bloomington downtown model.
Out-of-state partnerships.	Big 10 Communities. Michiana Partnership.
Regional approaches to economic development.	Northeast Indiana Regional Partnership. Hill Country Indiana.
Greater focus on targeting prospective business sectors.	Michiana Partnership.
Local lifelong learning	Switzerland County's LL Center.
Tech-driven entrepreneurship.	Scottsburg's Sci. & Tech Park.

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Regionalism Is Hot

1. Economic Development Consortium of Southwest Indiana.
2. South Central Indiana Economic Development Group.
3. Indy Partnership.
4. Energize ECI.
5. Southeast Indiana Growth Alliance.
6. Northeast Indiana Regional Partnership.
7. Michiana Partnership.
8. Radius Indiana.
9. I-74 Business Corridor.
10. Midwest Indiana Economic Development.
11. North Central Indiana Economic Development Partnership.
12. Northwest Indiana Forum.
13. Accelerate West Central Indiana.

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Defense and Security as a Basic Employer

Martin County

Per Capita Personal Income (annual) in 2009 \$31,871

Nonfarm average annual wage \$79,448

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NSA Crane Has Critical Impact on the Region – Note: Data from 2007 Study

- Wages earned by NSA Crane workers are among the highest in Indiana.
 - Approximately twice the average wage rate in its primary labor region.
- Direct and indirect NSA Crane jobs constitute:
 - 22.7 percent of Martin County employment.
 - 12.9 percent of Greene County employment.
 - 8.8 percent of Daviess County employment.
- NSA Crane wages comprise:
 - 17 percent of Bedford wage income.
 - 46 percent in Bloomfield.
 - 67 percent in Loogootee.

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Economic Development Challenges for Indiana

1. Maintaining and creating public infrastructure.
2. Balancing a competitive business climate with the ability to serve public needs.

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Discussion

1. How will we maintain the “Crossroads of America’s” infrastructure?
2. Picture the Indiana economy in 2016, in 2025:
 - Per capita personal income.
 - Major employment sectors.
3. What should the General Assembly do to help the state begin moving toward the U.S. average per capita personal income level?
4. Other issues.

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Thank You

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